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A developmental approach to performance measures—Results from a longitudinal case study

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Summary Performance measurement systems (PMS) serve different functions. These are formal devices for control, and for the formulation and communication of strategy, and as such PMS primarily serve higher-level managers. But we can also aspire PMS to support operational managers, to motivate and enable these managers to improve operations. Building on Adler and Borys [Adler, P.S., Borys, B., 1996. Two types of bureaucracy: enabling and coercive. *Administrative Science Quarterly* 41(March), 61–89] and Ahrens and Chapman [Ahrens, T.A., Chapman, C.S., 2004. Accounting for flexibility and efficiency: a field study of management control systems in a restaurant chain. *Contemporary Accounting Research* 21(2), 271–301], we use the term *enabling PMS*. This study reports on a developmental approach for such PMS, based on a longitudinal case study, with action research. The company has made enormous investments in operations, and it therefore needed PMS to facilitate improvement of processes and to measure the actual realization of the benefits from their investments. The challenge was to develop a performance measurement system as an enabler of performance improvement, rather than merely as a control device. The company adopted a developmental approach to performance measurement, which was based on the following principles: (1) experienced-based, (2) allowing experimentation, (3) building on employees' professionalism, (4) transparency and employee ownership, and (5) outside facilitators. This resulted in extended set of new and well-founded measures, it has enhanced employees' beliefs in the PMS and their commitment to performance improvement, and it has created organizational learning concerning performance measurement.

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Introduction: the challenge to develop enabling performance measurement systems

Performance measurement systems (PMS)—now often called “balanced scorecards” (Kaplan and Norton, 1992, 2006) and preceded by the earlier French “Tableaux de Bord” (Epstein and Manzoni, 1998)—are important in many different functional areas of management, such as operations (Evans, 2004; Davila and Wouters, 2006), marketing and sales (Löning and Besson, 2002; Llonch et al., 2002), HRM (Bontis et al., 1999), or sustainability (Székely and Knirsch, 2005). The topic has been studied by researchers specialized in these different fields, often with little cross-fertilization, however (Chenhall and Langfield-Smith, 2007).

Besides distinguishing these functional areas, it may be useful to explicate that performance measurement systems serve different functions. Such systems can be helpful for strategy formulation and communication (Simons, 1991). The structure and emphasis of the PMS, the definitions of specific performance measures, and the ambition level set for the various measures: these all make the organization’s strategy more concrete and guide the actions of managers lower in the organization (Drew and Kaye, 2007; Epstein and Manzoni, 1998; Mooraj et al., 1999). Furthermore, PMS can be a form of diagnostic controls through measurement of actual results: such systems can focus employees on specific results that are expected from them (by senior management) and make them work harder and put in more effort (Simons, 1995). From both the strategy and the control perspectives, the PMS primarily serves higher-level managers (Ittner and Larcker, 2003; Kaplan and Norton, 1992, 2006).

But what about the role of PMS for managers lower in the organization, the employees whose performance is being measured? Are PMS only something for “others”, or can PMS be something that also supports operational managers in *their* work: PMS that motivate and enable these managers to do a better job and to improve their operations? Building on Adler and Borys (1996) and Ahrens and Chapman (2004), we use the term *enabling PMS*.

We focus on enabling PMS *in operations*, where performance measurement is becoming more and more important (Andrews et al., 2001; Evans, 2004; Groote et al., 1996). There is a substantial literature on PMS in operations, and we refer to several recent papers that provide reviews of the literature (Chenhall and Langfield-Smith, 2007; Davila and Wouters, 2006; Kennerley and Neely, 2003). PMS may include a large number of different measures for each responsibility unit, spanning financial performance, customer relations, internal business processes, and learning and growth objectives of the organization (Kaplan and Norton, 2006). Researchers in operations management have argued for PMS that are multidimensional (with different kinds of measures, on service, inventory, speed, costs, etc., and with a good understanding of the tradeoffs among these) and cross-enterprise (Hausman, 2003). Empirical studies have found that operational strategies such as JIT, quality improvement and flexibility, make it relevant to expand traditional efficiency-focused performance measures and to embrace new performance measures (e.g., Abernethy and Lillis, 1995; Abdel-Maksoud et al., 2005; GChenhall, 1997;

Fullerton and McWatters, 2002; Perera et al., 1997). Yet, Chenhall and Langfield-Smith (1998) found that financial performance measures continue to be an important aspect of management accounting, although these are being supplemented with a variety of non-financial measures. However, design and implementation of PMS pose significant challenges for companies (Melnyk et al., 2004). Far too often measurement system implementations fail (Neely et al., 2000), and one of the key issues is how the behavior of people is affected by these systems.

This study seeks to make the following contributions. First, we aim to help better understand characteristics of *processes for the design and implementation of enabling PMS*, which is complementary to Ahrens and Chapman (2004) who focus more on characteristics of the system than on these processes. How can organizations go about involving employees in design and implementation processes in such a way that employees will judge the PMS as something that actually helps and motivates them to improve? How can organizations avoid that such processes may start as initiatives that people are excited about and have high hopes for, but then turn into a standard template that is irrelevant at best, and may well lead to skepticism and cynicism (Townley et al., 2003)? While several methods for implementing the balanced scorecard have been proposed—Papalexandris et al. (2005) and Bourne et al. (2003) review the literature—processes for developing enabling PMS have received less attention.

As a second contribution of this study, we aim to bring together a number of *different perspectives* on PMS. In particular, from operations management, which has focused on characteristics of supply chains and PMS (Lohman et al., 2004), from organizational studies, which have focused on how PMS affect the behavior of people in organizations (Lowe and Jones, 2004; Townley et al., 2003), and from accounting, which amongst other things has focused on measurement issues and definitions of performance measures (Abdel-Maksoud et al., 2005; Hyvönen, 2007; Ittner and Larcker, 2003). We demonstrate how these perspectives complement each other: because of the characteristics of specific operational processes, creating valid, useful and understandable measures is challenging. This makes it especially relevant to involve people whose performance is going to be measured: to utilize their knowledge of processes, how these are managed, and how this can be reflected in quantitative measures.

A third contribution is to provide a number of *managerial implications* for a developmental process towards enabling PMS, which may both stimulate future research and provide guidance for practitioners. Bridging gaps between academic and managerial research is certainly a contemporary challenge (Van de Ven and Johnson, 2006; Walsh et al., 2007).

We conducted a longitudinal case study, based on action research. This study focused on a project to develop a PMS in the Logistics department of Grolsch—a beer brewing company in the Netherlands. The project was initiated by the Director of Logistics, who heads the management team of the Logistics department. Logistics includes the departments Materials Management, Physical Distribution, Purchasing, and Packaging Development, totaling around 150 employees. The central theme of the whole study is PMS as enabling devices rather than control instruments. The study

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